

1 Pamela M. Egan, WSBA No. 54736 (*pro hac vice*)
2 POTOMAC LAW GROUP PLLC
3 1905 7th Ave. W
4 Seattle, WA 98119
5 Telephone: (415) 297-0132
6 Email: pegan@potomacclaw.com
7 *Attorneys for Mark D. Waldron, Chapter 11 Trustee*

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**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON**

In re:

GIGA WATT, Inc., a Washington
corporation,

Debtor.

Case No. 18-03197 FPC 11

The Honorable Frederick P. Corbit

Chapter 11

**TRUSTEE'S INTERIM REPORT RE
INVESTIGATION OF PUBLIC
OFFERING**

Mark D. Waldron, in his official capacity as the Chapter 11 Trustee (the
“Trustee”), hereby submits an interim report regarding certain aspects of the
public offering, also called an Initial Coin Offering, that Giga Watt, Inc. (“Giga
Watt”) conducted in 2017. More than \$70 million in claims have been asserted
against the estate relating to the public offering.

This report does not attempt to disclose all the facts gleaned to date and is
subject to further discovery. After further discovery, subsequent reports will be
filed.

1 From May 27, 2017 to July 31, 2017, Giga Watt publicly offered to sell
2 digital assets and tangible assets, in the form of tokens and miners, respectively.
3 As owners of tokens and miners, investors would have the right to distributions
4 from crypto-currency mining pools. In its promotional materials, Giga Watt
5 referred to Giga Watt Pte. Ltd. (“**GW Singapore**”) as its “Partner.” GW
6 Singapore was organized in Singapore. Dave Carlson has testified that he and his
7 colleagues formed GW Singapore in order to distance their contemplated public
8 offering from the U.S. securities laws, on the advice of counsel. Giga Watt and
9 GW Singapore told the public in their promotional materials that GW Singapore
10 owned Giga Watt’s hosting capacity and was now making it available for \$1.00 to
11 \$1.20 per watt (or token) depending on how early in the offering the purchaser
12 participated. A third company, Cryptonomos Pte. Ltd. (“**Cryptonomos**”), a
13 Singapore company, ran an internet platform from which investors could buy
14 tokens. Daria Generalova a/k/a Dasha Generalova of Cryptonomos helped lead the
15 marketing of the Giga Watt offering.

16 The promotional materials averred that each token represented the right to
17 access one watt of computer processing power at Giga Watt for fifty years. Token
18 holders were also urged to buy miners from GW Singapore for delivery and set up
19 at Giga Watt. The promotional materials represented that if the watts consumed by
20 purchased miner(s) matched the number of purchased tokens, then the miner and
21 token holder would not to have pay a monthly “rental” fee in order to “mine” at
22 Giga Watt. Only the monthly cost of electricity and maintenance would be due in
23 order to “mine” at Giga Watt. The promotional materials stated that tokens could

1 also be “rented out” to others who could then use them to mine at Giga Watt.¹

2 Only token holders could buy miners. As Giga Watt and GW Singapore stated,
3 “[I]t could be compared to membership in an elite private mining club.”

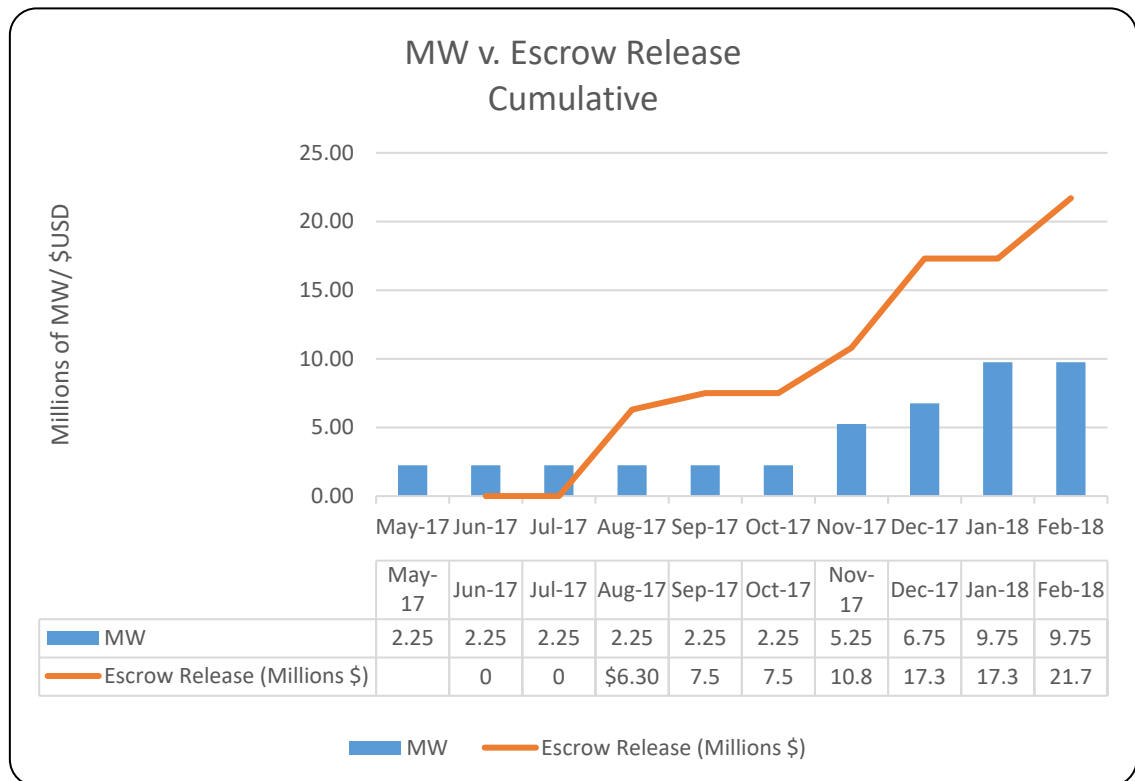
4 Giga Watt, GW Singapore and Cryptonomos have overlapping sets of
5 directors, including David Carlson, Leonid Markin, Eduard Khaptakhaev and
6 Andrey Kuzenny. Andrey Kuzenny, who signed the petition initiating this case, as
7 Giga Watt’s Secretary, is also Cryptonomos’ Director of Investor Relations. GW
8 Singapore and Cryptonomos shared an address, which the Trustee has been told is
9 fictitious. Mail sent to this address has been returned without a forwarding
10 address. In March 2017, Cryptonomos retained the law firm, Perkins Coie LLP
11 (“**Perkins Coie**”). In May 2017, just days before the launch of the public offering,
12 GW Singapore retained Perkins Coie. Another attorney, Katrina Arden, also
13 represented GW Singapore.² Giga Watt apparently conducted the public offering
14 without legal counsel.³

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16 ¹ In August 2018, Giga Watt reported to the SEC that the tokens also traded on
various exchanges.

17 ² Katrina Arden is also known as Katrina Grant and Ekaterina Kovalyova.

18 ³ Shortly after the Giga Watt public offering ended, Cryptonomos’ CEO, Nikolay
Evdokimov, and Generalova moved on to another public offering, under the name
19 of ICOBox, Inc. It bore many of the same hallmarks as the Giga Watt offering.
The SEC sued Evdokimov for securities violations relating to the ICOBox
20 offering. On March 5, 2020, the SEC obtained a \$16 million default judgment
against Evdokimov. *See SEC v. ICOBox and Nikolay Evdokimov*, Case No. 2:19-
21 cv-08066, U.S. District Court, C.D. CA, Judgment [Doc 17]. The ICOBox
offering, which allegedly raised \$650 million, triggered two other cases: *Anaykin*
22 *et al v. Evdokimov, Generalova et al.*, Case No. 2:19-cv-08165, filed in the U.S.
District Court, Central District of California; and *Morozov v. Evdokimov,*
23 *Generalova, et al.*, Case No. 1:18-cv-03421, filed in the U.S. District Court,
Southern District of New York.

The Trustee is informed that as of August 4, 2017, four days after Giga Watt's public offering ended, Perkins Coie held in escrow \$22,351,937.58 in token sale proceeds, representing 20,154,783 tokens sold to the public. According to the promotional materials, token sale proceeds would not be released from escrow until Giga Watt could provide the power that the purchased token (one watt of power per token) was supposed to represent. Based on records available to the Trustee, Giga Watt never had sufficient power to "back" these escrow releases, as set forth in the following chart.



In the above chart, the blue bars represent Giga Watt's power capacity as reported to the SEC in 2018 and based on the Trustee's knowledge of Giga Watt's

1 operations.⁴ The orange line represents disbursements from the escrow based on
2 information indirectly obtained from Katrina Arden.⁵ As the chart shows, as of the
3 public offering's close, which was July 31, 2017, Giga Watt had 2.25 MW of
4 power capacity. Therefore, \$2.25 million could be released from escrow,
5 according to the promotional materials.⁶ Yet, on August 7, 2017, according to the
6 records provided by Katrina Arden, the law firm transferred \$6.3 million from the
7 escrow to GW Singapore. As the chart further shows, not one disbursement from
8 the escrow complied with the public offering representations. The Trustee is
9 initiating formal discovery in order to understand this discrepancy.

10 By the Fall of 2017, at least one significant investor, StormsMedia, LLC,
11 demanded the return of approximately \$950,000 that it had paid for WTT tokens.
12 StormsMedia further demanded that the escrow funds be frozen until the dispute
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16 ⁴ This chart does not include power generated from two pods at the Moses Lake
17 facility: Pod 1, which Allrise Financial Group operated for its own benefit; and
18 Pod 8, which Eco Diversified Holdings, Inc. operated for its own benefit. This
19 chart also omits power generated at the facilities in George, Washington and in
20 Ephrata, Washington. The George and Ephrata facilities were only temporarily
operated for a period of time in 2018. Upon information and belief, Pod 1 was set
up in November 2017 and ran 1.5 MW and Pod 8 was set up in April 2018 and ran
1.5 MW. The George and Ephrata facilities ran from 1.0 MW to 2 MW, in the
aggregate.

21 ⁵ The Trustee wishes to verify the escrow disbursement numbers.

22 ⁶ The first 9,130,677 tokens were sold for \$1.00, based on representations made to
23 the SEC. Therefore, Giga Watt would need 9,130,677 MW of power in order for
Perkins Coie to release \$9,1310,677. Thereafter, the ratio was 1 token/\$1.05, 1
token/\$1.10 and 1 token/\$1.20.

1 was resolved.⁷ After the dispute was resolved, with GW Singapore agreeing to
2 rescind the token purchase, Giga Watt paid the \$950,000 in settlement proceeds. It
3 does not appear, based on currently available information, that this settlement was
4 paid from the escrow. Instead, Giga Watt paid it directly. An additional
5 \$849,920.75 in token sale refunds may also have been refunded from escrow.

6 On March 19, 2018, plaintiff Mark Moss filed a securities action against
7 Giga Watt and GW Singapore under the caption, *Moss v. Giga Watt, Inc. et al.*,
8 No. 2:18-cv-00100-SMJ (E.D. Wash.), alleging individual claims of an
9 unregistered offering of securities under the Securities Act of 1933 and the
10 Washington Securities Act and a claim for rescission of contract. Counsel for
11 Mark Moss demanded that the escrow be frozen pending resolution of the dispute.
12 However, by then, the escrow proceeds had been distributed.

13 On March 20, 2018, plaintiff Raymond Balestra filed a securities class
14 action against Giga Watt, GW Singapore, Cryptonomos, and then Giga Watt CEO
15 Dave Carlson under the caption *Balestra v. Giga Watt, Inc., et al.*, No. 2:18-cv-
16 00103-SMJ (E.D. Wash). The complaint alleges a claim of an unregistered
17 offering of securities against all defendants under section 12(a)(1) and a control
18 person claim against Dave Carlson under section 15(a) of the Securities Act of
19 1933 on behalf of a putative class of plaintiffs who purchased Giga Watt tokens

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21 ⁷ After failed pre-litigation negotiations, StormsMedia filed a suit under the
22 caption *StormsMedia, LLC v. Giga Watt, Inc. et al.*, No. 2:17-cv-00438-SMJ (E.D.
23 Wash.). The complaint alleged claims of an unregistered offering of securities
under sections 5(a) and (c) of the Securities Act of 1933 and of rescission of
contract. Pursuant to the settlement, the court dismissed the action on January 19,
2018.

1 during the Giga Watt public offering. On June 28, 2018, the court appointed Alex
2 McVicker as lead plaintiff. By stipulation of the parties, on July 3, 2018, the court
3 consolidated this case with the action titled *Moss v. Giga Watt, Inc. et al.*
4 described above. The plaintiffs in these two cases have filed a \$30 million claim
5 against Giga Watt.⁸ The Trustee understands that by the time this complaint was
6 filed, there was no money left in escrow.

7 On or before April 2018, the Securities and Exchange Commission opened
8 a formal investigation against Giga Watt.⁹ On October 2, 2018, plaintiff Refael
9 Sofair filed a class action against Giga Watt, GW Singapore and Dave Carlson
10 under the caption *Refael Sofair v. Giga Watt, Inc., et al.*, No. 2:18-cv-000308-SMJ
11 (E.D. Wash.). The complaint alleges a series of claims against all defendants
12 arising from the public offering, including a claim under sections 1962(c)-(d) of
13 the Racketeer Influenced and Corrupt Organizations Act and under the
14 Washington Consumer Protection Act. The complaint also alleged breach of the
15 implied covenant of good faith and fair dealing against Giga Watt and GW
16 Singapore. Sofair has filed a claim against the estate in an unliquidated amount.¹⁰

17 Claims filed against the estate arising from the public offering are not less
18 than \$71 million. The Trustee has requested additional information from Perkins
19 Coie regarding the disbursements from the escrow. That request has been declined

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21 ⁸ See Claim No. 351, filed in this case. The litigation has been stayed pursuant to
11 U.S.C. § 362.

22 ⁹ In April 2019, the SEC closed the investigation, without taking action, but
without exonerating Giga Watt.

23 ¹⁰ See Claim No. 298. The litigation has been stayed pursuant to 11 U.S.C. § 362.

1 and the Trustee is preparing a Rule 2004 motion with respect to the escrow and
2 related agreements. The Trustee will supplement this report when appropriate.

3 Dated this 3rd day of July 2020.

4 POTOMAC LAW GROUP PLLC

5 /s/ Pamela M. Egan

6 Pamela M. Egan

7 Attorneys for Mark D. Waldron, as Chapter
8 11 Trustee